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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

13 January 1987

China's Concerns Over Potential Worker Unrest: Impact on Economic Reform

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Summary

Student demonstrations have Beijing worried because they constitute an apparently unorchestrated response to the pace and direction of political reform. We believe Beijing is also concerned about the potential for unrest among workers over the effects of economic reform, and is taking steps to minimize it--including arrests of workers who join the protests and unfavorable press treatment of the demonstrations. We further suspect the leadership has just cause for concern, because despite the considerable progress of economic reform rising expectations among many workers and consumers outpace the economic gains thus far. Sharp inequalities in income and money-making opportunities are becoming more evident in China's urban and rural areas. More important, "haves" and "have-nots" alike are increasingly leery of how they will be affected by new reform measures that allow for inflation, unemployment, and reduced subsidies. Reform-engendered corruption at the local level angers and frustrates many.

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This memorandum was prepared by Office of East Asian Analysis. Information available as of 13 January 1987 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Economic Assessments Branch, China Division, OEA

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In the wake of student unrest, we expect to hear little in coming months about previously touted plans for reductions in urban food and housing subsidies; price reform; increased use of contract labor; or pursuit of a full-scale bankruptcy law. The leadership more likely will press ahead on such concerns as banking and management reforms, with less direct impact on worker livelihood, and wait for a calmer environment before pursuing a full-scale economic reform program. 25X1

Potential for Worker Protests

Student demonstrations in China have evolved from complaints over local grievances into protests over the pace and direction of national political reform. Student gripes about poor housing, curriculums, problems with local officials, and raised tuition developed into demonstrations calling for a more democratic system and for freedom of expression, while emphasizing support for Deng Xiaoping and the reforms he has introduced. The interplay of local grievances and national issues follows a pattern similar to that of student protests last fall, when Beijing's complaints about Japan's trading practices and its resurgent militarism provided a pretext for demonstrations by students aggravated more by living conditions than by Tokyo's actions. 25X1

We believe that the leadership is worried that a similar dynamic could develop among workers, over economic rather than political reforms, and that--despite the existence of better and more direct controls over workers than over students--Beijing is taking steps to prevent workers from joining or initiating protest activities. Press reports indicate that in stark contrast to the treatment of student demonstrators--a few detentions but no arrests--authorities have arrested nonstudent participants in several cities. In Beijing and Shanghai, local officials have mobilized the press to play up busing tieups and other inconveniences inflicted on workers by the demonstrations. Model workers have issued public statements condemning student protests. 25X1

Why Is Beijing Worried?

We suspect Beijing has cause to worry about worker attitudes. While economic reform has brought rapid growth and higher living standards,[2] it has also created unreasonable expectations and uneven gains among workers and peasants (see box). Furthermore, although reforms already in place have promised obvious gains--a chance to earn extra money and new goods to spend it on--the latest reform proposals provide fewer benefits and expose people to more risks by doing away with housing subsidies, raising food prices, and eliminating lifetime job security.

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Have the Gains From Reform Slowed?

Statistics on Chinese living standards support our view that the gains from reform for the average worker or peasant have not slowed, as suggested in the US press, but rather have not kept pace with expectations. Growth in both incomes and consumer goods availability was considerable in 1984 and 1985. However, after a dramatic rise in 1984, income increases in 1985--and probably 1986 as well--were lessened by inflation. Still, real gains in 1985 exceeded those in 1981-83 combined.

Growth in Workers Incomes (at State-Owned Units)

	Average Wage	% Change	% After Inflation
1981	812	1.1	- 1.4
1982	836	3.0	1.0
1983	865	3.5	1.4
1984	1034	19.5	16.5
1985	1213	17.3	4.8

Consumer Goods Per 100 Households

	1981	1982	1983	1984	1985
Urban:					
Bicycles	135.9	146.7	159.9	162.7	163.7
Watches	240.8	248.9	268.2	282.9	286.7
TV Sets:					
B&W	57.1	72.2	80.6	82.0	74.9
Color	0.6	1.1	2.6	5.4	18.4
Washing Machines	6.3	16.1	29.1	40.1	52.8
Refrigerators	0.2	0.7	1.6	3.2	9.6
Rural:					
Bicycles	44.4	51.5	63.4	74.5	80.6
Watches	55.1	68.9	91.4	109.4	126.3
TV Sets	0.4	1.7	4.0	7.2	11.7

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Source: State Statistical Bureau.

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Survey results published in the Workers' Daily newspaper on 2 January support our suspicions about worker dissatisfactions and document their fear of change. Although 62 percent (of a sample of 3,000 taken from 50,000 respondents) say people have more opportunities to make money, fully 60 percent are not satisfied with their incomes, and 51 percent say the pace of reform is "slow" or "too slow." And, although 70 percent want to be able to choose their own place of employment, few are willing to risk change; 55 percent of respondents would not resign to take a higher paying job, and less than half of those dissatisfied with jobs would leave to look for new ones.

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The Uneven Impact of Economic Reform

The litany of China's progress under economic reforms is familiar. China has quickly evolved from grain importer to grain exporter. Agricultural and industrial output have risen dramatically. Personal incomes are up, and consumer goods long taken for granted in the West are available in China for the first time. Workers can earn bonuses, factory managers have some say in what to produce, and farmers can diversify and sell much of what they produce at market prices. People can and do start their own businesses.

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This litany, however, hides the obstacles facing both urban and rural Chinese--obstacles beyond their control--that often thwart attempts to capitalize on reform, and prevent workers and peasants from keeping up with their neighbors, or with their own expectations.

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Impact on Farmers

With virtually no freedom to pick up stakes or expand operations, many farmers are markedly constrained by their location and land quality. Reforms in the countryside in the late 1970s probably helped even China's poorest areas make significant improvements in living conditions.[3] Over time, however, farmers with better land and better access to lucrative urban markets have pulled ahead of fellow peasants, often using their profits to build homes that are spacious by Chinese standards. Those with access to energy supplies are better able to develop agricultural support industries and to enjoy such consumer goods as refrigerators and washing machines that are useless in more remote areas, even when peasants can afford them.

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Impact on Urban Workers

Urban workers face a similar plight. With no freedom to choose their place of employment, urban workers are limited by the profit performance of their employer--often as much a function of the distorted price structure as of enterprise efficiency. In every city, workers less fortunate in job assignments can watch friends and neighbors at more lucrative enterprises get bigger raises and new apartments paid for by employers--and they are powerless to keep up, no matter how hard they work. New consumer goods such as washing machines and refrigerators--visible throughout Beijing in storefronts and even on the backs of bicycles--remain out of reach for many consumers.

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According to Embassy reporting, workers are also frustrated by the perception that farmers' incomes are rapidly surpassing their own. Exposed primarily to those farmers enjoying proximity to cities, urban workers bristle at paying free-market prices to peasants with new homes and greater incomes.

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Impact on Entrepreneurs

The encouragement of private enterprise under reforms has been responsible for public recognition of "10,000-yuan families"[4] in urban and rural areas, but we believe these symbols of reform have instilled more envy than encouragement. Individual enterprise constitutes only 3 percent of the urban labor force and less than 1 percent of China's industrial output. Few Chinese with guaranteed jobs are willing to take a chance on starting their own businesses. And the opportunities offered by reforms to entrepreneurs appear less promising than before. Discussions between US Embassy and Chinese officials indicate that agricultural policies in 1987 will emphasize grain production and restrict credit to entrepreneurs--which may give peasants a sense of declining opportunities.

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Growing Corruption

The proliferation of corruption--far from extinct despite central government efforts--points up concerns and frustrations at the grassroots level that reforms may ultimately bring back economic oppression with a new set of masters. According to Embassy reporting, private enterprise has been an easy mark for local officials--with little prospect of higher government pay--who neglect their duties and abuse their

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[4] Beijing selected this high but arbitrary level of family income to show via press tributes that even large gains from entrepreneurship were not only acceptable but officially encouraged.

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power to run sideline industries of their own, or to press entrepreneurs within their jurisdictions for kickbacks, protection money, or extra contributions to local projects. 25X1

Fear of the Future

We suspect anxiety about the future is much more universal than envy--both the haves and the have-nots in China fear what changes reforms under consideration will carry:

- To the average worker, price reform is probably the most frightening proposal. Price increases of up to 100 percent in foodstuffs in urban areas in 1985 were a shock to urban workers, to whom further price reform means more of the same. Workers are already feeling the pinch as inflation and purchases of more goods at free-market prices erode gains in purchasing power.

- Reductions in housing and food subsidies also threaten to erode gains in living standards. Rents for urban apartments are so low they fail to cover maintenance expenses, let alone recover construction costs, but even token increases will jolt workers long accustomed to subsidized rents. Experiments with sales of apartments in various Chinese cities play up the difficulty of moving away from the subsidy system; only more profitable enterprises can afford to buy buildings or apartments for their workers; few urban Chinese are willing or able to leave a 10-dollar-a-month apartment rental and pay $5,000 or $10,000 to own an apartment, regardless of the improvements in amenities.

- A shift to contract labor--with temporary job assignments of months or years--is extremely disconcerting in a society conditioned to expect job guarantees for life. Initial proposals for contract labor indicated that no workers with "fixed" jobs would convert to contract status, but people are worried about their children's future. In the Worker's Daily survey, 53 percent of respondents want their children to marry people with fixed jobs, rather than contract labor.

- A nationwide bankruptcy law may also be a source of anxiety, particularly for workers at money-losing enterprises who, with fewer bonuses and probably no change in housing, have gained the least from reforms thus far.[5] To date, only one factory in China has been declared bankrupt, and we expect the recently passed experimental bankruptcy law (see box)--only applicable in certain cities--will be used to bring firms into line rather than close them down. Still, Chinese press reports indicate strong apprehensions about bankruptcies among workers, especially in those who do not fully understand the concept; the lack of a national unemployment insurance program can only heighten worker anxieties.

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China: Experimenting With a Bankruptcy Law

The new bankruptcy law enabling Beijing to close down debt-ridden state factories is an attempt to improve industrial efficiency and reduce state subsidies. In contrast to the original, hotly debated version reviewed by the National People's Congress last June, the law approved in November applies only to state-owned enterprises in selected cities. Press articles indicate that the law differs significantly from Western concepts of bankruptcy--assets of closed enterprises will remain state property and the government will play a major role in relocating workers.

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Factory-level resistance to the originally proposed bankruptcy law focused on China's distorted, state-set prices as an obstacle to making more factories profitable. This weaker version--apparently the first in a set of industrial reforms with which Beijing will experiment in 60 cities--will help the leadership assess and, if necessary, modify its policies before implementing them nationwide. The leadership is not likely to shut down many enterprises any time soon, because of concern about the possible public reaction to widespread job losses.

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Beijing's Options

In the wake of student demonstrations, we expect Beijing to proceed cautiously with those components of the reform program that workers fear most--price reforms and reductions in food and housing subsidies, which threaten to erode gains in worker incomes, and full-scale contract labor and bankruptcy laws, which raise the specter of unemployment. Even a soft-pedaling of these reforms over the next few months will be a significant shift for Beijing, however, given plans announced last year to move ahead in 1987 in precisely these areas.

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Instead, we expect Beijing--at least publicly--in the next few months to focus on reforms with far less direct effect on workers and consumers--further reforms in factory management, and improved credit controls for the People's Bank of China, for example.[6] Initial press reports on reform plans for 1987 seem to bear this out; in a 5 January press interview with the official news agency Xinhua, Vice-Minister Lin Zongtang of the State Economic Commission said top priority will go to continuing enterprise reform, and increasing production and raising efficiency, with no mention of price reforms, bankruptcy laws, or use of contract labor.

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The leadership undoubtedly will work behind the scenes on most reform components in 1987, resuming public efforts perhaps by summer if the domestic front seems calm. Only last year, the reformers claimed a period of consolidation and retrenchment was necessary for the reform program, and then a few months later introduced several new proposals. Even so, we suspect new efforts at price reform or an expanded bankruptcy law will be carefully packaged to reassure workers that their jobs and standards of living are safe.

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